PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.:PIDC0091373

(The report # is automatically generated by IDU and should not be changed)

Program Name	*Governance for Improved Service Delivery*
Region	*Africa*
Country	*Kenya*
Sector	*Governance*
Lending Instrument	*Program-for-Results*
Program ID	*P161387*
{If Add. Fin.} **Parent Program ID**	*N/A*
Borrower(s)	*Republic of Kenya*
Implementing Agency	*The National Treasury*
Date PID Prepared	*September 20, 2016*
Estimated Date of Appraisal Completion	April 28, 2017
Estimated Date of Board Approval	*September 5, 2017*
Concept Review Decision	*To be added after CN review meeting*
Other Decision *{Optional}*	

I. Introduction and Context

A. Country Context

1. **Kenya has experienced relatively stable growth in recent years but poverty levels remain high and the income distribution is uneven.** With annual growth rates in recent years of around 4-5% (projected to rise to close to 6% in 2015), poverty is estimated to have fallen from 34% in 2005 to around 25% in 2015[1]. The poorest segments of the population have limited access to social services and infrastructure. Addressing poverty challenges requires accelerated growth and improved service delivery. To this effect, the World Bank Country Partnership Strategy 2014-18 identifies: (i) growth to eradicate poverty; (ii) human development and shared prosperity; and (iii) delivering the devolution dividend as domains of Bank engagement with good governance as a connecting platform.

2. **The country is currently experiencing some fiscal pressures.** Growth has been steady and revenue collection has remained level as a share of GDP while expenditures have expanded rapidly. This has resulted in an increasing fiscal deficit and stock of debt.

3. **Overall debt levels are sustainable (at around 20 % of GDP well below the indicative threshold of 50%)[2] but approaches to debt and cash management in Kenya are**

[1] Staff estimate. Poverty rate at USD 1.9/day in 2011 PPP terms. At USD 3.1/day in 2011 PPP terms poverty in 2015 is estimated to be around 50 %. Source: Macro Poverty Outlook for Kenya prepared for the 2015 Annual Meetings.
[2] IMF, Debt Sustainability Analysis, September, 2015.

resulting in recurrent episodes of cash shortfalls and a sense of fiscal crisis in the general public. While the deficit and borrowing were within the limits set by the 2015/16 budget, failure to take home loans in good time led to cash shortfalls. The shrinking of the fiscal space was augmented by lower than projected revenue collection.

B. Sectoral and Institutional Context of the Program

4. **Over the past decade Kenyans have made progress in a range of governance reforms, accelerated by the Constitution 2010**. Good progress has been made in areas of economic governance, including revenue administration at the national level, the passing of a PFM law in 2012 that, inter alia, regulates the use of budget and control and the establishment of Office of the Controller of Budget and the Office of the Auditor General as a Supreme Audit Institution[3]. The defunct Anti-Corruption Commission was replaced with a new and strengthened Ethics and Anti-Corruption Commission with enhanced legal and operational independence (although in the recent past its operational independence has been challenged by Parliament). Devolution has taken off since the election in March 2013, bringing governance and service delivery closer to citizens, but with significant challenges in capacity of institutions and systems. The judiciary is also undergoing reform, with increasing independence from the executive illustrated through key constitutional decisions, the removal of unsuitable judicial officers through independent vetting and the implementation of administrative reforms to improve performance. These reforms bear testimony to a very significant support and capacity for governance reforms that can be leveraged in future engagements as envisaged in the CPS2014-18.

5. **Despite the progress, Kenya still faces significant governance challenges that are symptomatic of institutional and systemic weaknesses**. These include ineffective oversight and accountability, weak implementation and enforcement of laws and regulations, inefficient public investment management and systemic corruption. The Constitution 2010 creates space for strengthening demand side governance through public dialogue and citizen engagement but the instruments and mechanisms for putting these into practice for strengthening oversight and accountability of governments and officials are not yet fully embedded. Implementation is ongoing in all these areas with risk, opportunities and challenges in the years to come. These governance challenges reduce development effectiveness and the prospects for poverty reduction.

6. **The significant governance reforms are likely to register in Governance Indicators in the coming years if reforms initiatives are followed through.** However, retrospectively, there has been little change in the indicators over time. Regulatory Quality has been on a slight downward trend in recent years while Rule of Law has been on a slight upward trend. Other indicators have been flat at a relatively low level[4].

---

[3] The PFM Act is under revision to, inter alia, take full account of the devolved system of government.

[4] WB Governance indicators, http://data.worldbank.org/data-catalog/worldwide-governance-indicators

C. Relationship to CPS/CPF

The World Bank Country Partnership Strategy (CPS) 2014-18 identifies: (i) growth to eradicate poverty; (ii) human development and shared prosperity; and (iii) delivering the devolution dividend, as domains of Bank engagement with good governance as a connecting platform. The CPS recognizes that governance constraints hinder achievement of development outcomes and divert resources from public to private purposes through fraud and corruption. The CPS recognizes that these constraints hinder achievement of all CPS outcomes which is why governance has been made a connecting platform. Outcome ten of the strategy aims at "Heightened Transparency and Accountability in the Use of Public Resources, Particularly at the County Level".

II. Program Development Objective(s)

A. Program Development Objective

7. The proposed project development objective is to strengthen the functioning of core public financial management and governance systems in areas that impact on public infrastructure and service delivery.

B. Key Program Results

8. The operation will focus on both addressing key gaps and challenges in the systems and processes for delivering public investments and services and creating incentives for those systems and processes to be implemented effectively. Given past experience it is better to identify modest positive changes that can be achieved, so that momentum in reform can be built, rather than over-ambitious changes which are unlikely to be achieved. Smaller steps towards improvements with a limited number of counterparts could be a good start. More sophisticated reform elements – including with a sector focus – would be addressed in possible follow-on operations. A limited set of *key crosscutting challenges and bottlenecks* in PFM and other core governance systems, which impact most severely on investment and service delivery, will be identified during preparation and addressed by the program.

9. **Success in addressing these challenges will be defined in terms a set of DLIs and associated program results during preparation.** However, the actual solutions developed to achieve these results will be developed and implemented during the life of the operation. In the process of solving these problems, the operation will also aim to establish incentives for both crosscutting PFM institutions and sectoral MDAs to play their respective roles in the management of public resources for infrastructure and service delivery more effectively.

10. **During the preparation of the operation a deeper understanding of the core challenges in the functioning of PFM systems in relation to infrastructure service delivery will be developed.** Below sets out a potential list of results areas and illustrative program results. These would need to be interrogated and prioritized further with the client during the preparation phase.

11. **Results Area 1 - Public Investment, Procurement and Contract Management:** starting with the strengthening of the prioritization of public investments through to procurement of investments and the management of those contracts will enhance the delivery of expansions in public infrastructure and other investments. Potential results might include:

a. A public investment system established, projects prioritized and core project information made available in budget documentation.
b. Core information on the majority of MDA's procurement published using an online procurement and contract management system.

12. **Results Area 2: Predictability and Control in Core Budget Execution:** results which represent improvements in the predictably with which funds are made available to MDAs when required by them in line with the approved budget will help facilitate infrastructure and service delivery. Meanwhile, ensuring that salary and non-salary expenditures are made promptly in line with budget allocations by MDAs would help ensure expenditures are made as planned. Indicative potential results might include:

a. Funds made available for service and infrastructure delivery available in a transparent and predictable manner in line with the approved budget.
b. Annual Budget and procurement plans uploaded onto IFMIS prior to start of the financial year
c. Commitments and expenditures processed within statutory timelines via the IFMIS in line with the approved budget.
d. Public sector salaries paid through a unified payroll system finalized prior to the start of the financial year and linked to the IFMIS

13. Results Area 3: Transparency & Accountability in Infrastructure and Service Delivery: strengthening the availability of information on infrastructure and service delivery in line with open government principles will help provide a platform for strengthening the audit and oversight of expenditure relating to infrastructure and service delivery. Indicative potential results might include:

a. Information on spending agencies expenditure, infrastructure and service delivery results made publicly available using an improved system of budget reporting in line with OGP principles
b. Strengthened audit of priority public investments and services in a way which promotes accountability

Collectively, the program results should be mutually reinforcing and represent successful resolution of the core bottlenecks in service delivery identified during preparation. The will not be a set of independent results implemented independently by different institutions. It is important to note that the changes required to achieve the results specified will need to be politically feasible and realistically achievable within the period of the operation.

III. Program Description

14. **The proposed operation will be anchored in the Revised Public Finance Management Strategy (2013-2018).** The strategy is attached separately to this concept note. The main objective of the strategy is to ensure "A public finance system that promotes transparency, accountability, equity, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development". A number of Strategic Plans feed into the PFMR Strategy implementation including the Office of the Auditor General Strategic Plan (2015-2018). The proposed program will also draw from the Kenya Open Government National Action Plan II (2016-2018) and the recommendations made in the GHRIS Hardware Infrastructure Evaluation Report (2016).

15. **The main outcomes of the PFMR strategy are summarized in Box 1 below.** The Revised Strategy was developed and adopted following a midterm review of the 2013-2018 Strategy. The revised Strategy provides a framework and roadmap that will guide the improvements to the government's public financial management (PFM) reforms for the period up to June 2018.

Box 1: Overall Outcomes

- The Key PFM legislation will be fully established, observed and enforced by all entities at national and county government level to produce greater fiscal discipline and integrity through the PFM cycle.
- Significant improvement in the alignment of results of MDA and county budgets and programs with the MTP and the Vision 2030
- Efficiency in collection of resources will significantly improve leading to enhanced yields and greater stability in financing the budget at national and county government level.
- Credibility of the budget will improve with better alignment between plans, appropriations and actual disbursements.
- The capacity of counties for budget formulation and implementation will significantly improve leading to better utilization and increased absorption of budgets.
- The capacity of OAG for audits - including financial, performance and VFM, will be significantly enhanced leading to timely and better quality audit reports.
- Budget execution - both at the national and county government level, will significantly improve, providing better predictability of exchequer releases and reductions in pending bills.
- Fully integrated PFM systems (including the IFMIS and others) thus minimizing manual operations and enabling more accuracy and timelines of reporting across all financial operations of MDAs and counties.

IV. Initial Environmental and Social Screening

16. **The program aims at strengthening business processes and ICT infrastructure that support these processes.** This aspect of the operation is expected to have no direct social safeguards issues. Environmental safeguards for this part of the program is expected to be limited to management of e-waste.

17. **Public investment management is proposed to be included in the program.** The scope of the program, including expenditure program, can be limited to revision of business

processes etc. as for other parts of the program. However, one option could be to also include expenditures for actual physical investments improved through the Program (subject to eligibility provisions in the PforR guidelines which excludes Category A activities). This would require a more extensive safeguards assessment.

18. **In accordance with OP/BP9.00, the Bank will conduct Environment and Social Systems Assessment (ESSA).** The ESSA focuses on institutional capacity to manage environmental and social risks, and will review existing regulations and policies, institutional capacity, and the effectiveness of implementation in practice. The Assessment will cover the implementing agencies including the National Treasury, the PPOA and OAG. Depending on how public investment management systems are is supported, including through the definition of DLIs and decision on the boundaries of the expenditure framework, the assessment will be expanded to sector MDAs.

19. **A draft ESSA Report is expected by the end of 2016.** It will be followed by consultations with key stakeholders, and disclosure of the first draft prior to appraisal. Further consultations will be held during appraisal, and the final report made public after Appraisal.

V. Tentative financing

Source:	($m.)
Borrower/Recipient	0
IBRD IDA Others (specify)	150
Total	150

VI. Contact point

World Bank
Contact: Mr. Jens Kristensen
Title: Lead Public Sector Specialist
Tel: 202-458-1498
Email: JKristensen@worldbank.org

Borrower/Client/Recipient
Contact: Dr. Kamau Thugge
Title: Principal Secretary
Tel: +254 (0) 225 22 99
Email: ps@treasury.go.ke

Implementing Agencies
Contact: Mr. Geoff Mwau
Title: Director General, Directorate of Budget and Fiscal Affairs
Tel: +254 (0) 225 22 99
Email: gnmwau@treasury.go.ke

VII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop